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EB FOR A/S SULLIVAN
USDOE FOR CHARLES WASHINGTON
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TAGS: [ENRG](#) [ECON](#) [IZ](#) [TU](#)
SUBJECT: TURKEY TO RESUME FUEL SHIPMENTS TO IRAQI SOMO

SENSITIVE BUT UNCLASSIFIED.

¶1. (SBU) Summary. Turkish and Iraqi State Oil Marketing Organization (SOMO) officials agreed on a new payment plan for approximately \$950 million in arrears owed by SOMO to Turkish fuel product suppliers. This agreement should allow fuel shipments from Turkey, including for building kerosene stocks, to resume as soon as SOMO can negotiate new contracts with the Turkish companies. Turkish officials say they were impressed by the commitment of their Iraqi counterparts to the new payment plan, but the first test will be an \$80 million payment due October 20. End Summary.

¶2. (SBU) Foreign Trade Undersecretariat (FTU) Director General Sevet Ilgac confirmed that he and a delegation led by Iraqi SOMO DG Falah al-Amari agreed September 27 on a "minutes of meeting" containing a payment plan for arrears due by SOMO to Turkish suppliers of fuel products to SOMO. The agreed minutes, a copy of which Ilgac provided (emailed to Baghdad/ECON) notes "with satisfaction" payments that have been received on the \$650 million in arrears under the so-called "Category A" in the previous agreement. The main operative points of the new agreement provide a new repayment plan for approximately \$297 million in "Category B" arrears, which had been disputed by SOMO.

New Payment Plan for Category B

¶3. (SBU) The September 27 agreement subdivides category B into three new categories, the first and largest of which is \$200 million for fuel deliveries made in January and February 2006 that were endorsed by SOMO ("covered by credit notes"). SOMO acknowledged its obligations in this category and promised to pay the \$200 million in 5 installments of \$40 million each. The first two installments are due together on October 20, the second two are due together on November 20 and the final installment is due on December 20. The second subcategory covers approximately \$80 million due for deliveries made in 2003-05. These were also endorsed by SOMO, but were not included in the first payment agreement dated February 15, 2006. SOMO agreed to examine these claims and to propose a payment plan before November 1. The third, and according to Ilgac, most problematic category, is about \$17 million for deliveries that were

not endorsed by SOMO, but where the suppliers are able to show evidence that SOMO took delivery. SOMO promised to come to an agreement with FTU and the involved on this category before November 130.

New Shipments Can Start Immediately

14. (SBU) Ilgac said that he had great personal confidence in al-Amari and that he was optimistic that SOMO would keep its word on this plan. Al-Amari assured him that the Iraqi Finance Minister had approved and allocated \$200 million to cover the first sub-category.

Ilgac said FTU is ready immediately to approve new delivery contracts negotiated by SOMO with Turkish supplier companies. He said SOMO and suppliers were currently discussing prices and volumes. New contracts could be settled and products in route to Iraq, he thought, before the end of the week (October 6).

15. (SBU) Ilgac also said that FTU had agreed that SOMO could deal with a smaller subset of the 33 companies to which SOMO is indebted between now and the end of the year (when payments should be complete). He confirmed that after that SOMO would be free to deal with any Turkish supplier company. He understood that there was a particular need for kerosene in Iraq and said that SOMO was discussing this with the state-owned Turkish International Petroleum Company (TPIC). He understood, however, that TPIC might not be able to provide all of SOMO's needs for unspecified technical reasons.

16. (SBU) The new agreement also covers improved arrangements for payment of Turkish imports of Iraqi heavy fuel oil, as well as for cooperation against fuel smuggling. Ilgac noted that the latter was of prime interest to both sides.

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Comment

17. (SBU) Ilgac said that he was impressed by al-Amari's command of the situation and apparent personal commitment to settling the outstanding issues. This must indeed be impressive to be sufficient to overcome SOMO's track record in honoring its debts to Turkish companies (this is the fourth such agreement covering substantially the same arrears). Receipt of the October 20 installments will be an important test of Ilgac's faith and of Turkey's continued flexibility. Ilgac also noted hopefully that many of the logistical problems at the Habur border crossing that have stymied earlier deliveries should be fixed following the completion of construction of a new facility.

18. (SBU) Ilgac stressed repeatedly that the basic problem in the past was lack of communication by SOMO. In the past, when SOMO was unable to meet its obligations, it simply didn't pay and didn't make an effort to contact the Turkish side. He said that if SOMO had any difficulties under the new agreement, it should immediately consult with FTU on potential solutions. Turkey's overriding interest, he stressed repeatedly, was in having a good trade relationship with Iraq.

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